

FDIC State Profile

Winter 2005

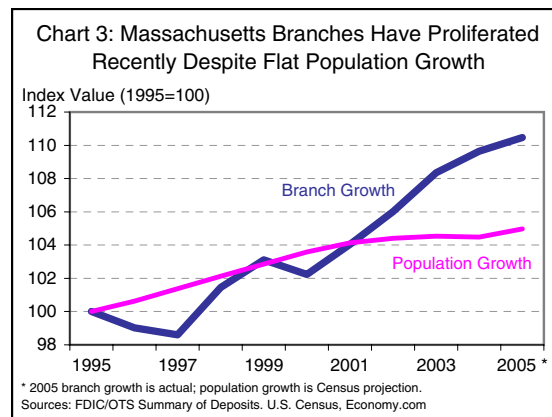
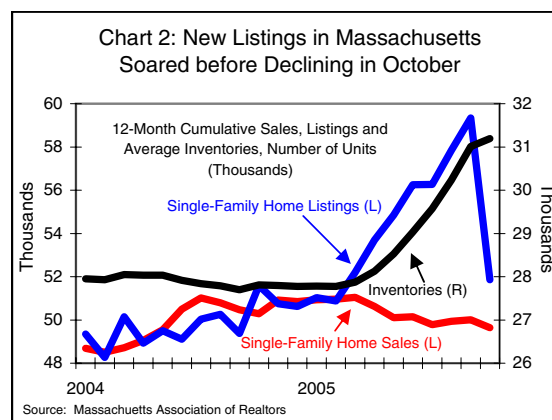
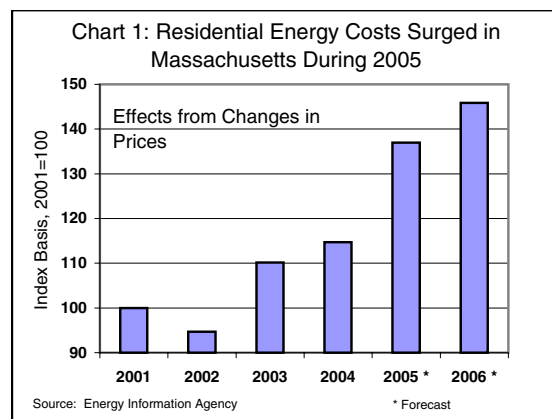
Massachusetts

Higher energy prices have affected Massachusetts households, and prices are expected to remain elevated in 2006. Employment growth remains modest.

- Prices of all energy products rose rapidly in 2005 as Gulf coast storms disrupted supplies of crude oil and natural gas across the United States. Nationally, retail prices of heating oil for calendar year 2005 are expected to average almost one-third more than a year earlier, and 2006 prices are expected to increase by an additional 10 percent.
- Costs of energy sources are generally more expensive in Massachusetts as the state has few indigenous energy resources to replace disrupted supplies. Energy costs are expected to average about one-fifth higher in 2005 than in 2004 and to rise further in 2006 (see Chart 1).
- As a result, spending on residential energy in Massachusetts may be 5 percent of disposable income in 2005, with lower income households impacted most by the higher prices.¹
- Rising energy costs are affecting an already slow growing economy. Over the four quarters ending in the third quarter 2005, payroll employment in Massachusetts rose only 0.9 percent.

Housing markets continue to be strong, but changes may be underway.

- Sales of existing Massachusetts homes, both single-family and condominiums, though slowing, remained at high levels in 2005. However, a sharp rise in listings led to increase in the inventory of unsold homes over the course of the year (see Chart 2).
- Massachusetts' yearly percentage increase in existing home prices as of third quarter 2005 was 8.0 percent, four points lower than during the second quarter and below the nation's rate of 12.0 percent.
- Rising mortgage rates may reduce demand for new housing and refinancing activity. As of November, the 1-year adjustable rate averaged one of the highest rates in four



¹FDIC estimates based on data supplied by the Bureau of Labor Statistics, Census Bureau, Bureau of Economic Analysis, and Moody's Economy.com.

State Profile

years at 5.43 percent, and the 30-year fixed rate averaged a three-year high of 6.28 percent.

Massachusetts has enjoyed the strongest branch office growth in New England.

- Massachusetts bank branches have expanded a total of 8.1 percent over the last five years, surpassing the U.S. average, 7.7 percent, and far outpacing the regional 4.6 percent rate (see Chart 3). Competitive pressures are driving this expansion, despite the fact that population growth in the state, 1.3 percent over the same five years, is a fraction of the nation's 5 percent rate.
- As a result of this recent branch growth, current population per branch stands at 3,003, below the national average of 3,243. With a very slow growing population (population is estimated to have shrank in 2004), and fewer people being served by each branch, the current pace of branch expansion is not likely to be sustainable over the long term.

Massachusetts' insured institutions continue to experience pressure on net interest margins (NIM).

- Insured institutions in Massachusetts reported stable earnings in 2005 with a median return on assets of 0.67 percent as of September 30, 2005. Third-quarter median return on assets at the state's large institutions declined 13 basis points in the last year to 0.70 percent. This decline can be attributed to pressure on net interest income and also an increase in noninterest expenses.
- Massachusetts' insured institutions NIMs have experienced pressure since the mid 1990s. After declining since 2002, NIMs at the state's community institutions stabilized in 2005 as increased funding costs were offset by a boost in asset yields (see Chart 4).²
- The state's large institutions have seen NIMs decline faster than the state's community institutions as funding costs, spurred by higher short-term interest rates, increased more rapidly than asset yields. This downward trend reversed slightly in the third quarter 2005 as asset yields improved.

Credit quality remains favorable in Massachusetts' insured institutions.

- Loan quality remained strong through third quarter 2005 in Massachusetts' insured institutions. The median delinquent loan rate was below 1 percent as of September 30, 2005 (see Chart 5). The state's high concentration of residential real estate loans, which historically have performed well, helps keep overall delinquency rates low.

As core deposit growth has slowed, Massachusetts institutions continue to add noncore funding.

- Deposits in Massachusetts' insured institutions funded a record-low percentage of assets in 2005. In 1992, the median ratio of total deposits to assets was about 90 percent; this ratio dropped to 79 percent at the end of third quarter 2005. The drop in core-deposit funding was even more pronounced (see Chart 6).
- Insured institutions have relied more heavily on noncore funding sources to fund asset growth. The median ratio of noncore funding to assets rose from about 5 percent in 1992 to 23 percent as of September 30, 2005.

Chart 4: Net Interest Margins are Still Under Pressure in Massachusetts

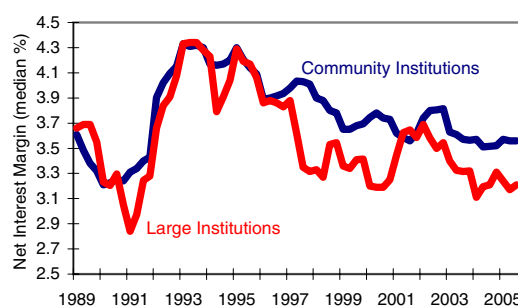


Chart 5: Favorable Credit Quality Allows Low Provisions in Insured Institutions

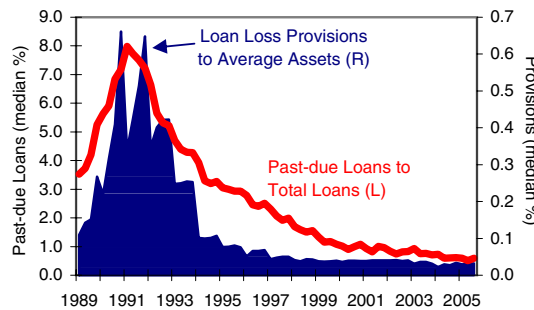
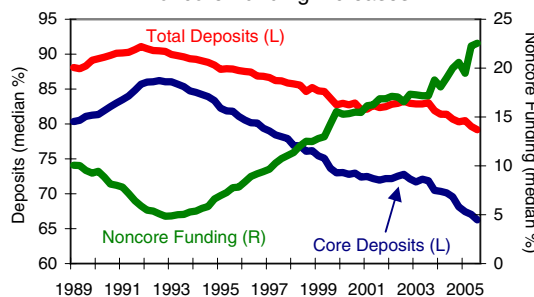


Chart 6: Core Deposits Continue to Decline as Noncore Funding Increases



²Community institutions have assets <\$1 billion. Analysis also excludes specialty institutions.

Massachusetts at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2004
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.6%	0.7%	0.1%	-0.1%	-1.9%
Manufacturing (10%)	-0.3%	-0.6%	-1.8%	-3.2%	-7.0%
Other (non-manufacturing) Goods-Producing (4%)	2.1%	2.5%	1.4%	1.2%	-2.7%
Private Service-Producing (73%)	0.8%	0.9%	0.5%	0.4%	-1.0%
Government (13%)	-0.4%	-0.2%	-1.4%	-1.2%	-2.6%
Unemployment Rate (% of labor force)	4.6	4.7	5.0	5.1	5.8

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2004
Personal Income	N/A	5.3%	5.6%	5.8%	2.2%
Single-Family Home Permits	9.0%	-3.1%	9.6%	9.9%	-5.7%
Multifamily Building Permits	6.0%	48.0%	-12.0%	23.2%	57.9%
Existing Home Sales	11.2%	3.3%	12.6%	19.8%	2.1%
Home Price Index	8.0%	12.0%	14.2%	11.4%	9.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	4.10	3.70	2.65	2.84	3.02

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2004
Institutions (#)	195	195	200	200	209
Total Assets (in millions)	232,440	230,672	227,551	224,189	214,167
New Institutions (# < 3 years)	0	0	2	1	2
Subchapter S Institutions	2	2	1	1	0

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2004
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.57	0.50	0.60	0.60	0.70
ALLL/Total Loans (median %)	0.90	0.92	0.93	0.91	1.02
ALLL/Noncurrent Loans (median multiple)	5.06	6.10	5.64	5.17	4.27
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.00

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2004
Tier 1 Leverage (median %)	9.40	9.37	9.34	9.18	9.21
Return on Assets (median %)	0.67	0.63	0.70	0.69	0.76
Pretax Return on Assets (median %)	1.03	0.97	1.07	1.06	1.17
Net Interest Margin (median %)	3.45	3.49	3.47	3.50	3.54
Yield on Earning Assets (median %)	5.37	5.26	5.03	5.02	5.29
Cost of Funding Earning Assets (median %)	1.94	1.80	1.55	1.56	1.82
Provisions to Avg. Assets (median %)	0.03	0.03	0.02	0.03	0.03
Noninterest Income to Avg. Assets (median %)	0.42	0.41	0.40	0.41	0.49
Overhead to Avg. Assets (median %)	2.65	2.68	2.62	2.68	2.65

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2004
Loans to Assets (median %)	67.2	66.2	63.7	64.5	61.0
Noncore Funding to Assets (median %)	22.5	22.3	19.5	20.4	18.6
Long-term Assets to Assets (median %, call filers)	32.1	29.7	31.8	28.8	31.6
Brokered Deposits (number of institutions)	32	31	25	25	22
Brokered Deposits to Assets (median % for those above)	2.1	1.9	2.2	2.2	2.7

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2004
Commercial and Industrial	20.7	21.6	20.8	20.9	19.4
Commercial Real Estate	168.2	159.5	151.2	154.9	150.9
Construction & Development	34.2	32.0	29.1	29.9	28.1
Multifamily Residential Real Estate	13.8	15.2	13.2	14.5	10.9
Nonresidential Real Estate	88.2	87.3	85.9	86.4	83.6
Residential Real Estate	409.1	419.7	394.1	398.7	397.5
Consumer	7.1	6.6	7.1	6.9	8.6
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Boston-Cambridge-Quincy, MA-NH	154	141,035	< \$250 million	87 (44.6%)
Springfield, MA	23	10,827	\$250 million to \$1 billion	88 (45.1%)
Worcester, MA	39	9,674	\$1 billion to \$10 billion	17 (8.7%)
Barnstable Town, MA	12	5,535	> \$10 billion	3 (1.5%)
Pittsfield, MA	12	2,721		